GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, APRIL 30, 2021

- **Survey flags expensive asset valuations as primary risk for markets** (link)
- **US Treasury investors ignore strong economic data as worries lurk** (link)
- **China imposes restrictions on major domestic tech companies** (link)
- **India faces higher rates as virus crisis intensifies** (link)
- **Euro area yields steady as core inflation eases** (link)

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Month-end brings a cautious tone to global markets

US equity futures pulled back from Thursday's all-time highs, following the rest of the world lower as the month comes to a close with a more cautious tone prevailing in markets. Many commodities were also lower, while Treasury yields and euro area government bond yields held steady. Risk assets had surged in recent days on hopes of a US-led global recovery as US economic data continue to exceed expectations. However, today the dire virus situation in India had foreign investors fleeing local markets in the face of rising interest rates. China's new restrictions on leading technology companies also weighed on sentiment. Nevertheless, April was a good month for most markets as vaccination programs accelerated in many countries and hopes for a recovery were reinforced by robust economic numbers.

Key Global Financial Indicators

Last updated: 4/30/21 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4211	0.7	2	6	45	12
Eurostoxx 50		3989	-0.2	-1	2	36	12
Nikkei 225		28813	-0.8	-1	-3	47	5
MSCI EM		55	-0.2	2	3	50	6
Yields and Spreads					bps		
US 10y Yield		1.64	0.8	8	-6	100	73
Germany 10y Yield		-0.21	-1.5	5	8	38	36
EMBIG Sovereign Spread		339	-3	-1	-11	-290	-11
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		57.1	-0.2	0	2	8	-1
Dollar index, (+) = $ appreciation		90.9	0.3	0	-3	-8	1
Brent Crude Oil ($/barrel)		67.4	-1.7	2	6	167	30
VIX Index (%, change in pp)		18.4	0.8	1	-1	-16	-4

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

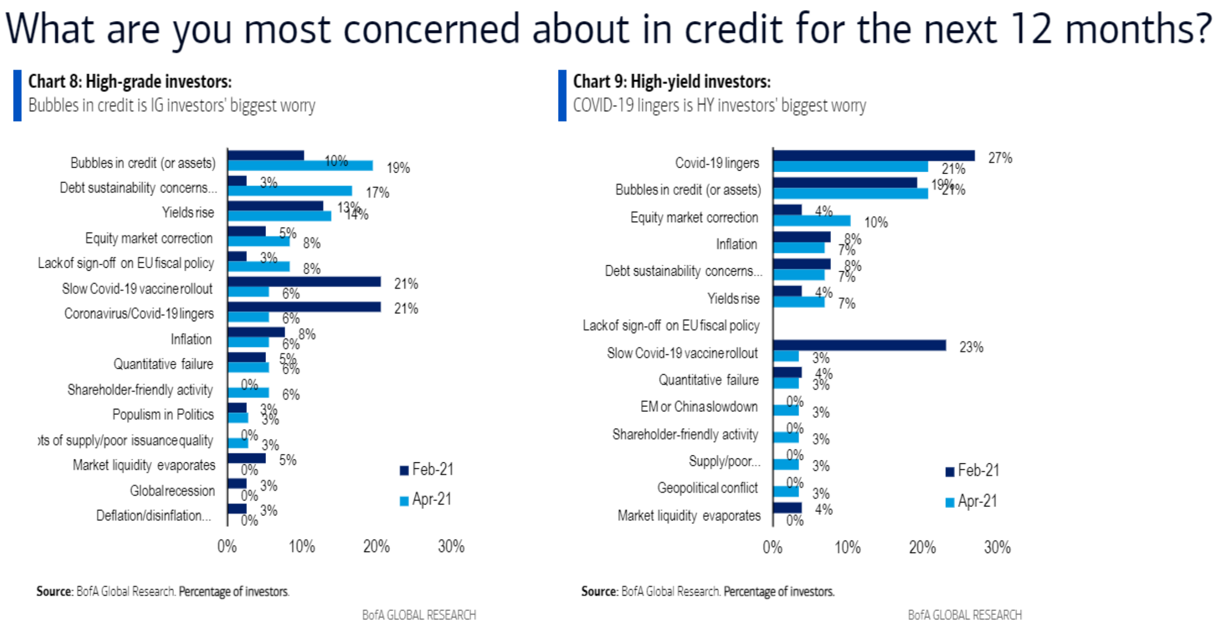
United States back to top

This morning's market data came in very close to close to expectations with minor impact on the markets. The annualized core PCE deflator, the Fed's preferred measure of inflation, was at 1.8% in keeping with forecasts. Over the past six years, Fed policy has been unable to push the number above 2% except for a brief period in 2018 and early 2019.

Key US Data 8.30 am
Source: Bloomberg

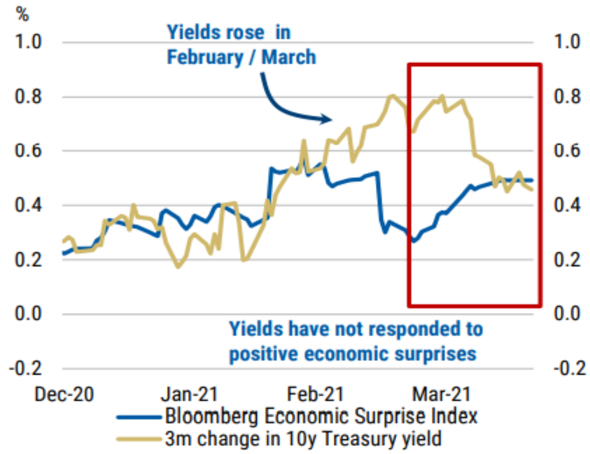
Data Release	Consensus Forecast	Actual Data
Core PCE deflator mom	**0.3%**	**0.4%**
Core PCE deflator yoy	**1.8%**	**1.8%**
PCE deflator mom	**0.5%**	**0.5%**
PCE deflator yoy	**2.3%**	**2.3%**
Personal Spending	**4.1%**	**4.2%**

Investment grade (IG) investors see asset bubbles as the primary risk to markets, according to the latest survey from Bank of America. Corporate debt sustainability and higher yields were flagged as other major risks. The pandemic and related concerns are no longer the main risks. However, the smaller community of high yield (HY) investors still put the pandemic at the top of their list, probably because their sector contains weaker and smaller companies which still face significant challenges and have less access to cheap funding. Although investors remain fairly bullish at the moment, more than 60% believe the current rally will end when the Fed begins to taper its asset purchases. For Europe, 15% think the rally will end when the 10-year bund yield becomes positive.



The Treasury market has shown little response to positive US economic surprises, with yields trading in a relatively narrow range in recent weeks despite very strong jobs reports, ISM data, and retail sales. According to Morgan Stanley, US investors are much more pessimistic than foreign investors because they are more skeptical about the President's ability to pass the infrastructure and family spending bills. In addition, they think the pandemic could pose further challenges to the US recovery, especially due to vaccine hesitancy and the resurgence of the virus in emerging markets. Some are worried about the risk of more infectious new strains, such as the variant reported to be spreading through India.

Exhibit 12: 10y Treasury yields vs. Bloomberg economic surprise index

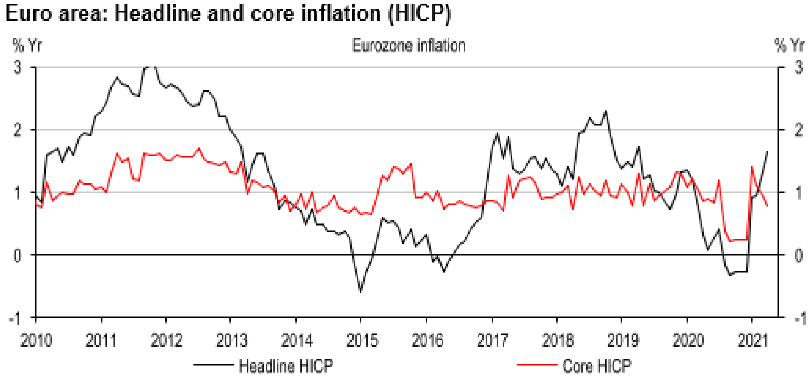


Source: Bloomberg, Morgan Stanley Research

Europe back to top

Euro area bond yields were little changed after flash inflation data were in line with expectations and GDP data confirmed that the euro area entered a double-dip recession in Q1. GDP contracted a less-than-expected 0.6% qoq (contraction of 0.8% qoq expected) or 1.8% yoy. Headline inflation rose 0.6% mom (0.5% mom) or 1.6% yoy (as expected) in April on the back of base effects with core inflation at 0.8% yoy (as expected) from 0.9% in yoy in March. 10-yr bund yields were little changed at -0.21%, and the euro (-0.2% to $1.21) ticked lower. Euro area spreads were also little changed.

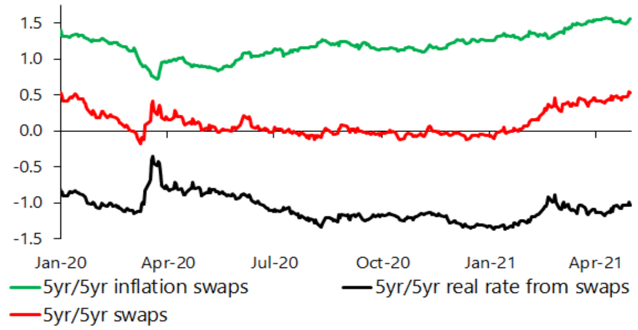
Euro area: Headline and core inflation (HICP)



Source: HSBC

Euro area 5y/5y inflation swaps held on to their 2021 gains in April, closing the month at 1.57% (3 bps above levels of late March) **as analysts expect euro area economies to benefit further from vaccination programs.** Contacts still expect any pick-up in euro area headline inflation to be transitory, pointing to easing core and services inflation. Euro area 5y/5y real yields rose 5 bps in April to -1.03% as nominal 5y/5y swap rates rose 8 bps to 0.54%.

Euro area: 5yr/5yr inflation and 5yr/5yr interest rate swaps (%)



Source: Bloomberg and IMF staff

Analysts point out that EU countries are using different strategies in the design of national recovery plans. SocGen expects that many countries will request the maximum financial contribution in grants available to them under the EU Recovery and Resilience Facility (RRF) and other EU grants but adopt different strategies for loans. For example, Italy proposes to use the maximum loan allocation of €122 bn (limiting the amount of funding from its own resources) whereas Spain and Poland reportedly plan to use grants first, with the intention of requesting loans later (as loans can be requested until August 2023). Other countries, such as France and Germany, do not plan to use loans. **The European Commission will assess each plan no later than two months from submission.**

Table 1. Summary of national recovery plans announced this week

	National Recovery Plan size	of which RRF	RRF - grants	RRF - loans	ReactEU	Own resources
Italy	235.1	191.5	68.9	122.6	13	30.6
Spain	180	140	72	68*	13	27
France	100	40	40		3.9	60
Poland	107.5	58.1	23.9	34.2**	2.1	47.3
Germany	28	25.6	25.6		2.4	2.4
Greece	57.5	30.5	17.8	12.7	2.2	24.8

Source: SG Cross Asset Research/Rates, *Plan does not detail loans, as these are expected to be requested from 2022, **Poland wants to maximise the use of grants, with the intention of utilising loans at a later stage.

Other Mature Markets back to top

Japan

Labor market conditions and industrial production in March were stronger than expected. The unemployment rate dropped to 2.6% in March from 2.9% in February. The shadow unemployment rate, which includes workers who are employed but are not working, dropped to 5.2% in March from 6.0% in February. Industrial production increased 2.2% m/m in March instead of an expected 2% decline. The gain in industrial production was driven by vehicles and auto parts. Analysts noted that a new COVID-19 resurgence will likely weigh on consumer confidence and labor market conditions.

Emerging Markets back to top

Most emerging market equities were lower. China's crackdown on local technology companies weighed on risk sentiment. Asian investment-grade dollar bonds saw increasing spreads over U.S. peers in April. Asian yield premiums, currently at 58 bps, have widened by more than 20 bps from a low in March following growing concerns around China Huarong Asset Management.

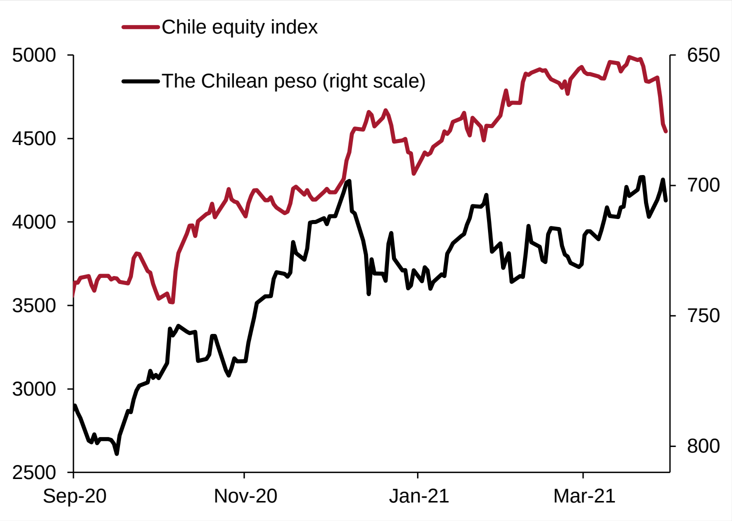
Key Emerging Market Financial Indicators

Last updated: 4/30/21 8:07 AM	Level Last 12m	Level index	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		54.95	-1.1	2	3	50	6
MSCI Frontier Equities		30.99	0.0	1	5	37	9
EMBIG Sovereign Spread (in bps)		339	-3	-1	-11	-290	-11
EM FX vs. USD		57.13	-0.2	0	2	8	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.47	0.1	0	1	9	1
Indonesian Rupiah		14445	0.0	1	1	3	-3
Indian Rupee		74.08	-0.1	1	-1	1	-1
Argentine Peso		93.50	-0.1	0	-2	-29	-10
Brazil Real		5.35	-0.2	2	5	3	-3
Mexican Peso		20.06	-0.1	-1	2	21	-1
Russian Ruble		75.15	-0.6	0	1	-1	-1
South African Rand		14.41	-0.7	-1	3	29	2
Turkish Lira		8.26	-0.5	2	0	-15	-10
EM FX volatility		9.53	0.0	-0.3	-1.8	-1.5	-1.2

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Chile

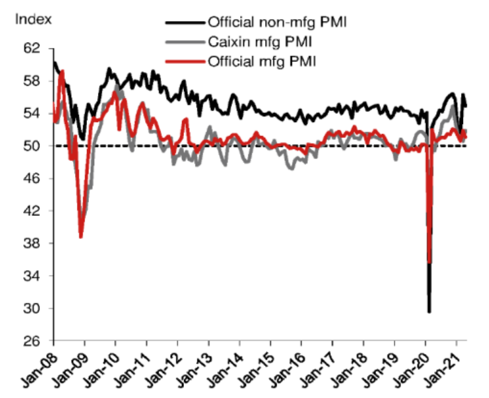
Chile's central bank will reopen a $9.5 bn cash purchase and forward sale (CC-VP) program to counter market volatility sparked by the approval of a third round of pension fund withdrawals. The central bank also decided to extend the repo program with banks until August 2021. The central banks said in a statement that the measures were essential to "preserve the stability of financial markets and the efficiency of the price formation process." JP Morgan analysts commented that the measures would boost liquidity and growth in households, and they expected the central bank to raise its policy rate in the fourth quarter of 2021, which is earlier than previously expected. Chilean risk assets saw losses on Thursday, as the benchmark equity index continued to slide (-1.0%) and the peso weakened 1.1% against the dollar.



China

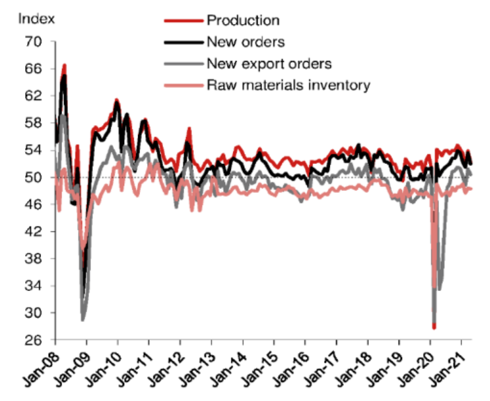
Chinese regulators imposed wide-ranging restrictions on the financial arms of leading tech firms. Thirteen tech firms, including Tencent, JD, Meituan and Didi Chuxing, were summoned to a meeting with several watchdogs including the central bank. A raft of requirements, similar to those imposed on Ant, will be applied to these tech firms, including stricter compliance when listing abroad, curbs on information monopoly, and stronger protection of personal data. Firms are also required to restructure their financial arms into financial holding companies and to sever improper links between their payment services and financial products**. PMI data were mixed but still pointed to a continued recovery.** The official PMI moderated more than expected to 53.8 in April from 55.2 in March. Manufacturing PMI declined to 51.5 (from 51.9) and non-manufacturing PMI fell to 54.9 (from 56.3). Meanwhile, Caixin manufacturing PMI improved to 51.9 (from 50.6). Analysts generally saw that the economic recovery remains on track. Both manufacturing PMIs indicated growing price pressures.

Fig. 2: China's PMIs



Source: IHS Markit, WIND and Nomura Global Economics.

Fig. 3: Major sub-indices of the official manufacturing PMI

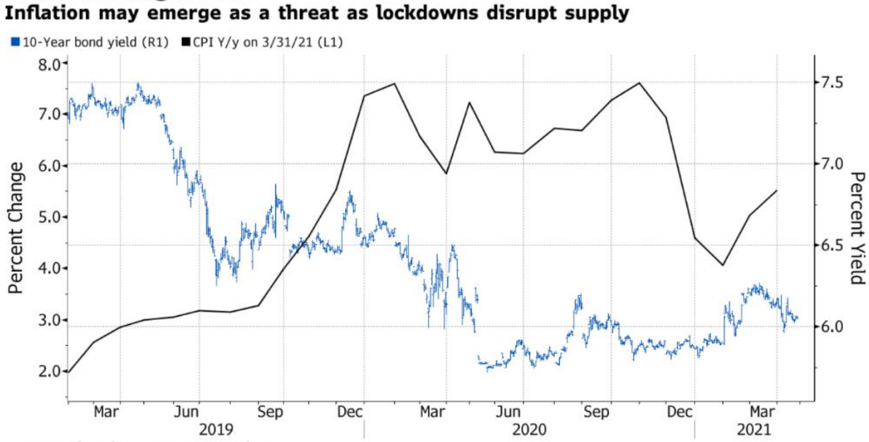


Source: WIND and Nomura Global Economics.

India

The unfolding COVID-19 outbreak added more pressures on the government's fund raising. The government is already lagging its financing target by 188 bn rupee ($2.5 bn) just one month into the new fiscal year. The renewed COVID-19 outbreak, as well as the lockdowns, is expected to reduce tax revenues and demand larger government spending, with more borrowing likely further pushing yields upward. In the past month, the government debt auctions missed the fund-raising target as the central bank (on behalf of the government) rejected demand for higher yields; underwriters were also forced to fill in some of the gap. Analysts also noted that the lockdowns may disrupt the flow of goods and drive up prices, potentially complicating monetary policy. Amid the new COVID-19 outbreak, foreign investors fled India's stock markets. Domestic institutional investors bought shares worth $1.3 bn in April, providing support to equities. Indian share prices rose 3% over the past week, outperforming regional peers. Long-end yields dropped after the Reserve Bank of India announced Operation Twist for next week.

Yield Management
Inflation may emerge as a threat as lockdowns disrupt supply



Source: Bloomberg, Government data

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Global Financial Indicators

Last updated: 4/30/21 8:05 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4204	0.7	1	6	44	12
Europe		3989	-0.2	-1	2	36	12
Japan		28813	-0.8	-1	-3	47	5
China		3447	-0.8	-1	-1	21	-1
Asia Ex Japan		95	-0.1	2	3	49	6
Emerging Markets		55	-0.2	2	3	50	6
Interest Rates					basis points		
US 10y Yield		1.64	0.8	8	-6	100	73
Germany 10y Yield		-0.21	-1.5	5	8	38	36
Japan 10y Yield		0.10	-0.1	3	1	13	8
UK 10y Yield		0.83	-1.1	9	1	60	64
Credit Spreads					basis points		
US Investment Grade		91	-0.5	-3	-4	-103	-4
US High Yield		327	-0.7	-9	-20	-431	-53
Europe IG		50	-0.1	-1	-2	-30	2
Europe HY		249	-0.7	-1	-6	-241	7
Exchange Rates					%		
USD/Majors		90.88	0.3	0	-3	-8	1
EUR/USD		1.21	-0.3	0	3	10	-1
USD/JPY		108.9	0.0	1	-2	2	5
EM/USD		57.1	-0.2	0	2	8	-1
Commodities					%		
Brent Crude Oil ($/barrel)		67	-1.7	2	6	167	30
Industrials Metals (index)		156	0.7	4	10	64	18
Agriculture (index)		57	-0.6	0	11	63	19
Implied Volatility					%		
VIX Index (%, change in pp)		18.4	0.8	1.0	-1.0	-15.8	-4.4
US 10y Swaption Volatility		73.4	-0.6	-1.2	-15.6	9.6	13.3
Global FX Volatility		7.1	0.0	-0.1	-0.9	-1.5	-1.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		120	2.0	4	4	-155	0
Italy		110	-0.3	6	14	-125	-1
Portugal		69	1.5	3	17	-72	9
Spain		68	1.1	2	5	-63	6

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 4/30/2021 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.47	0.1	0.5	1	9	1		3.3	-1.2	2	-6	89	-2
Indonesia		14445	0.0	0.6	1	3	-3		6.5	-4.2	3	-18	-143	45
India		74	-0.1	1.3	-1	1	-1		6.3	-0.4	-3	-5	4	38
Philippines		48	0.4	0.5	1	5	0		4.1	-3.7	-13	30	-76	48
Thailand		31	0.1	0.8	0	4	-4		1.9	-0.4	3	-7	47	56
Malaysia		4.09	0.4	0.5	1	5	-2		3.3	0.0	6	2	43	71
Argentina		93	-0.1	-0.5	-2	-29	-10		46.9	1.4	16	91	809	-925
Brazil		5.35	-0.2	2.4	5	3	-3		7.8	-1.8	-4	-46	184	225
Chile		706	-1.1	0.1	4	18	1		3.8	3.1	31	34	106	105
Colombia		3713	-0.4	-2.0	0	6	-8		6.5	0.4	27	4	9	142
Mexico		20.06	-0.1	-1.2	2	21	-1		6.8	3.9	7	3	9	119
Peru		3.8	-0.4	-0.8	-1	-11	-4		5.2	-0.8	3	49	55	160
Uruguay		44	0.3	0.5	1	-3	-4		7.4	-2.7	-2	-7	-468	12
Hungary		298	-0.2	0.8	4	8	0		2.0	2.8	3	0	39	47
Poland		3.78	-0.3	-0.4	5	10	-1		1.0	10.6	8	12	-6	36
Romania		4.1	-0.4	-0.3	3	8	-3		2.6	-1.0	-1	-1	-157	-13
Russia		75.1	-0.6	-0.4	1	-1	-1		6.7	-1.7	2	0	87	99
South Africa		14.4	-0.7	-0.9	3	29	2		10.1	2.7	14	-23	-82	41
Turkey		8.26	-0.5	1.6	0	-15	-10		17.8	-3.9	-6	-74	693	466
US (DXY; 5y UST)		91	0.3	0.0	-3	-8	1		0.87	0.7	5	-3	51	51

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5123	-0.8	0	-1	31	-2		199	0	-2	-9	30	-9
Indonesia		5996	-0.3	0	0	27	0		158	0	-9	-25	-5	-29
India		48782	-2.0	2	-2	45	2		158	-2	-11	11	-175	7
Philippines		6371	-1.8	0	-1	12	-11		83	0	-9	-17	13	-22
Malaysia		1602	-0.4	0	1	14	-2		113	0	-2	-3	9	3
Argentina		50065	0.0	6	4	53	-2		1459	0	19	8	-570	91
Brazil		120066	0.0	1	3	49	1		253	0	0	-16	58	3
Chile		4543	0.0	-6	-7	14	9		126	0	-6	-16	-14	-18
Colombia		1278	0.0	0	-3	12	-11		207	0	-4	-15	44	2
Mexico		48898	0.0	0	3	34	11		348	0	-9	-34	55	-12
Peru		19320	0.0	1	-10	31	-7		133	0	-4	-3	22	1
Hungary		43373	-0.7	1	-2	23	3		65	0	-6	-15	-42	-31
Poland		60876	-0.3	3	5	32	7		-22	0	-4	-11	-54	-21
Romania		11342	0.0	2	1	42	16		185	-1	-3	-3	-180	-18
Russia		3544	-0.8	-1	0	34	8		159	0	-5	-3	19	-7
South Africa		66796	-0.9	0	0	33	12		357	0	-4	-35	25	-23
Turkey		1400	-0.1	4	1	38	-5		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		55	-1.1	2	3	50	6		421	0	17	-10	97	128

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

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